

REPORT OF THE AUDITOR OF PUBLIC ACCOUNTS AUDIT EXAMINATION OF THE OWEN COUNTY FISCAL COURT

Fiscal Year Ended June 30, 2000

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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE OWEN COUNTY FISCAL COURT

FISCAL YEAR ENDED JUNE 30, 2000

The Auditor of Public Accounts has completed the Owen County Fiscal Court audit for fiscal year ended June 30, 2000. We have issued an unqualified opinion on the financial statements taken as a whole. Based upon the audit work performed, the financial statements are presented fairly in all material respects.

Report Comment:

One internal control problem was listed:

• Receipt Forms Should Be Issued For All County Receipts

Financial Condition:

The accompanying Statement of Assets, Liabilities, and Fund Balances Arising From Cash Transactions reflects unreserved fund balances totaling \$1,155,573. The accompanying statement of cash receipts, cash disbursements, and changes in cash balances reflects a cash balance of \$1,155,253 as of June 30, 2000.

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Edward B. Hatchett, Jr. Auditor of Public Accounts

To the People of Kentucky
Honorable Paul E. Patton, Governor
Kevin Flanery, Secretary
Finance and Administration Cabinet
Mike Haydon, Secretary, Revenue Cabinet
Honorable William P. O'Banion, Owen County Judge/Executive
Members of the Owen County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of assets, liabilities, and fund balances arising from cash transactions of Owen County, Kentucky, as of June 30, 2000, and the related statement of cash receipts, cash disbursements, and changes in cash balances for the year then ended. These financial statements are the responsibility of the Owen County Fiscal Court. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards, <u>Government Auditing Standards</u> issued by the Comptroller General of the United States, and the <u>Audit Guide for Fiscal Court Audits</u> issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Owen County, Kentucky, prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and laws of Kentucky. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received, except for the recording of long-term receivables and deferred revenue. Expenditures are recognized when paid, except for the recording of long-term obligations and amounts to be provided for in future years. The modified cash basis accounting system does not require an entity to maintain a general fixed asset group or a general long-term debt group of accounts. Accordingly, the accompanying financial statements are not intended to present financial position and results of operations in conformity with generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets, liabilities, and fund balances arising from cash transactions of Owen County, Kentucky, and the related statement of cash receipts, cash disbursements, and changes in cash balances as of and for the year ended June 30, 2000, in conformity with the modified cash basis of accounting described above.

To the People of Kentucky
Honorable Paul E. Patton, Governor
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Our audit was performed for the purpose of forming an opinion on the financial statements of Owen County, Kentucky, taken as a whole. The information provided on the accompanying schedules is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly presented, in all material respects, in relation to the financial statements taken as a whole.

Based on the results of our audit, we present a comment and recommendation, included herein, which discusses the following area of noncompliance:

• Receipt Forms Should Be Issued For All County Receipts

In accordance with <u>Government Auditing Standards</u>, we have also issued our report dated November 1, 2000 on our consideration of Owen County, Kentucky's compliance with certain provisions of laws, regulations, contracts, and grants, and internal control over financial reporting.

Respectfully submitted,

Edward B. Hatchett, Jr. Auditor of Public Accounts

Audit fieldwork completed -November 1, 2000

OWEN COUNTY OFFICIALS

Fiscal Year Ended June 30, 2000

Fiscal Court Members:

William P. O' Banion County Judge/Executive

Gary Minch Magistrate
Bobby Gaines Magistrate
Eugene Vanarsdall Magistrate
Noel True Magistrate

Other Elected Officials:

Charles Carter County Attorney

David Bruce Jailer

Eugene Young County Clerk

Carolyn Keith Circuit Court Clerk

Zemer Hammond Sheriff

Lee N. Cochran Property Valuation Administrator

Lannis Garnett Coroner

Appointed Personnel:

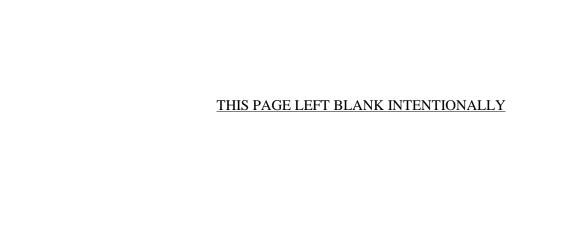
Norma McDonald County Treasurer
Charles Noel Road Supervisor

STATEMENT OF ASSETS, LIABILITIES, AND FUND BALANCES ARISING FROM CASH TRANSACTIONS

OWEN COUNTY STATEMENT OF ASSETS, LIABILITIES, AND FUND BALANCES ARISING FROM CASH TRANSACTIONS

June 30, 2000

Assets	
General Fund Type	
General Fund: Cash Road and Bridge Fund:	\$ 700,295
Cash Jail Fund:	454,288
Cash Revolving Account - Cash	 670 320
Total Assets	\$ 1,155,573
Liabilities and Fund Balances	
<u>Liabilities</u>	
General Fund Type	
Revolving Account	\$ 320
Fund Balances	
Unreserved:	
General Fund Type	
General Fund Road and Bridge Fund Jail Fund	700,295 454,288 670
Total Liabilities and Fund Balances	\$ 1,155,573



STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND CHANGES IN CASH BALANCES

OWEN COUNTY STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND CHANGES IN CASH BALANCES

Fiscal Year Ended June 30, 2000

			General Fund Type					
	Tot	als	Ge	neral		ad and dge		
Cash Receipts	On		Fu		Fu	U	Jail	Fund
Schedule of Operating Revenue Transfers In	\$	2,237,204 133,724	\$	1,252,841 13,824	\$	926,614	\$	37,799 119,900
Kentucky Advance Revenue Program		538,175		321,810		216,365		
Total Cash Receipts	\$	2,909,103	\$	1,588,475	\$	1,142,979	\$	157,699
Cash Disbursements								
Comparative Schedule of Final Budget and Budgeted Expenditures Transfers Out	\$	2,161,148 133,724	\$	1,141,143 122,900	\$	842,034	\$	160,369
Kentucky Advance Revenue Program- Principal Repaid		538,175		321,810		216,365		
Kentucky Association of Counties Leasing Trust - Principal Payment		7,000		7,000				
Total Cash Disbursements	\$	2,840,047	\$	1,592,853	\$	1,058,399	\$	160,369
Excess (Deficiency) of Cash Receipts Over (Under) Cash Disbursements Cash Balance - July 1, 1999	\$	69,056 1,086,197	\$	(4,378) 704,673	\$	84,580 369,708	\$	(2,670) 3,340
Cash Balance - June 30, 2000	\$	1,155,253	\$	700,295	\$	454,288	\$	670

OWEN COUNTY STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND CHANGES IN CASH BALANCES Fiscal Year Ended June 30, 2000 (Continued)

R	Special evenue and Type	_
Traf Safe		
Func	1	
\$	19,950	
\$	19,950	
\$	17,602 10,824	
\$	28,426	
\$	(8,476) 8,476	
	0	

OWEN COUNTY NOTES TO FINANCIAL STATEMENTS

June 30, 2000

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The financial statements of Owen County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the GASB Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Based upon the criteria stated in GASB 14, there are no component units which merit consideration as part of the reporting entity.

Additional - Owen County Constitutional Elected Officials

- Circuit Court Clerk
- County Attorney
- County Clerk
- County Sheriff
- Property Valuation Administrator

The Kentucky constitution provides for election of the above officials from the geographic area constituting Owen County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are subjected by oversight of state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices.

B. Fund Accounting

Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. The government uses funds to report on its financial position and the results of its operations. A fund is a separate accounting entity with a self-balancing set of accounts. A list of Owen County Fiscal Court's Fund Types, a definition of each, and a list of county funds included within each fund type are listed below.

1. General Fund Type

General Fund Type accounts for all financial resources except those required to be accounted for in another fund type. The Owen County General Fund Type includes the following county funds: The General Fund, Road and Bridge Fund, and Jail Fund.

OWEN COUNTY NOTES TO FINANCIAL STATEMENTS June 30, 2000 (Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

B. Fund Accounting (Continued)

2. Special Fund Type

Special Revenue Fund Type accounts for the proceeds of specific revenue sources that are legally restricted to expenditures for the specified purpose. The Traffic Safety Fund of the Owen County Fiscal Court is reported as a Special Revenue Fund Type.

C. Basis of Accounting

For all fund types, the county utilizes a modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received, except for the recording of long-term receivables and deferred revenue. Expenditures are recognized when paid, except for the recording of long-term obligations and amounts to be provided for in future years.

D. Legal Compliance - Budget

The Owen County budget is adopted on a cash basis of accounting and laws of Kentucky as required by the State Local Finance Officer. The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

E. Cash and Investments

Cash includes amounts in bank accounts, and investments are stated at cost. Investments may include certificates of deposit on the financial statements; however, for the purpose of disclosing credit risk (Note 3), investments exclude certificates of deposit.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

OWEN COUNTY NOTES TO FINANCIAL STATEMENTS June 30, 2000 (Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

F. Related Organizations

A related organization is an entity for which a primary government is not financially accountable. It does not impose will or have a financial benefit or burden relationship, even if the primary government appoints a voting majority of the related organization's governing board. Based on these criteria, the following are considered related organizations of Owen County Fiscal Court:

Owen County Conservation District Owen County Library District Owen County Health District

Owen County Water District Owen County Fire District

G. Joint Ventures

A legal entity or other organization that results from a contractual arrangement and that is owned, operated, or governed by two or more participants as a separate activity subject to joint control, in which the participants retain (a) an ongoing financial interest or (b) on ongoing financial responsibility is a joint venture.

Owen County Parks and Recreation Department Owen County Economic Development Authority Owen County Senior Citizens Department

Note 2. Employee Retirement System

The county has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a multiple-employer public retirement system which covers all eligible full-time employees. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 7.28 percent. Hazardous covered employees are required to contribute 7.0 percent of their salary to the plan. The county's contribution rate for hazardous employees was 17.55 percent.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is present in the Kentucky Retirement Systems' annual financial report.

OWEN COUNTY NOTES TO FINANCIAL STATEMENTS June 30, 2000 (Continued)

Note 3. Deposits

The county maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met, and as of June 30, 2000 and August 31, 1999, the county's deposits were fully insured or collateralized at a 100% level with collateral of either pledged securities held by the county's agent in the county's name, or provided surety bond which named the county as beneficiary/obligee on the bond.

Note 4. Operating Lease

Owen County entered into a lease agreement with Kentucky Association of Counties Leasing Trust Programs for the purchase of 14 electronic voting machines. The agreement requires a monthly interest payment with an annual principal payment. The amount of \$56,000 was borrowed over a 10-year period. As of June 30, 2000, the principal balance was \$14,000.

	Balanc	e	Principa	al	Interest		Balanc	e
Description	7/1/199	9	Paid		Paid		6/30/20	000
Voting Machines	\$	21,000	\$	7,000	\$	979	\$	14,000

Note 5. Insurance

For the fiscal year ended June 30, 2000, Owen County was a member of the Kentucky Association of Counties' All Lines Insurance Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.



COMPARATIVE SCHEDULE OF BUDGETED TO ACTUAL OPERATING REVENUE

OWEN COUNTY COMPARATIVE SCHEDULE OF BUDGETED TO ACTUAL OPERATING REVENUE

Fiscal Year Ended June 30, 2000

	•	geted rating	Actu Ope:	ıal rating	Ove:	
Budgeted Funds	Reve	•	Reve	_	Budg	get
General Fund Type: General Fund Road and Bridge Fund Jail Fund	\$	1,417,411 1,032,779 143,200	\$	1,252,841 926,614 37,799	\$	(164,570) (106,165) (105,401)
Special Revenue Fund Type: Traffic Safety Fund Totals	\$	67,500 2,660,890	\$	19,950 2,237,204	\$	(47,550) (423,686)
Reconciliation						
Total Budgeted Operating Revenue Above Add: Budgeted Prior Year Surplus Less: KACO Leasing Trust Lease - Principal Kentucky Advanced Revenue Program					\$	2,660,890 250,000 7,000 538,175
Total Operating Budget Per Comparative Schedule Of Final Budget and Budgeted Expenditures					\$	2,365,715



SCHEDULE OF OPERATING REVENUE

OWEN COUNTY SCHEDULE OF OPERATING REVENUE

Fiscal Year Ended June 30, 2000

			GOVERNMENTAL FUND TYPES			
	Tot (Me Onl	emorandum		neral nd Type		cial enue d Type
REVENUE:						
Taxes	\$	882,502	\$	882,502	\$	
Excess Fees		77,959		77,959		
Intergovernmental Revenues		1,003,998		984,111		19,887
Charges for Services		161,806		161,806		
Miscellaneous Revenues		41,458		41,395		63
Interest Earned		69,481		69,481		
Total Operating Revenue	\$	2,237,204	\$	2,217,254	\$	19,950



COMPARATIVE SCHEDULE OF FINAL BUDGET AND BUDGETED EXPENDITURES

OWEN COUNTY COMPARATIVE SCHEDULE OF FINAL BUDGET AND BUDGETED EXPENDITURES

Fiscal Year Ended June 30, 2000

	GENERAL FUND TYPE					
Expenditure Categories	Final Budget		Budgeted Expenditures		Unde (Ove Budg	r)
General Government Protection to Persons and Property	\$	382,176 511,106	\$	355,773 491,475	\$	26,403 19,631
General Health and Sanitation		87,600		82,117		5,483
Social Services		34,250		22,931		11,319
Recreation and Culture		27,000		14,650		12,350
Roads		741,650		728,960		12,690
Debt Service		14,213		10,719		3,494
Capital Projects		100,000		94,822		5,178
Administration		400,220		342,099		58,121
Total Operating Budget - All General						
Fund Types	\$	2,298,215	\$	2,143,546	\$	154,669
Other Financing Uses: Kentucky Advance Revenue Program- Principal Payment Lease Agreement- Voting Machines-		538,175		538,175		
Principal on Lease		7,000		7,000		
TOTAL BUDGET - ALL GENERAL FUND TYPES	\$	2,843,390	\$	2,688,721	\$	154,669
		SPECIA	L RE	VENUE FUI	ND TY	PE
Expenditure Categories	Fina Bud			geted enditures	Unde (Ove Budg	r)
Administration	\$	67,500	\$	17,602	\$	49,898
TOTAL BUDGET - SPECIAL REVENUE FUND TYPE	\$	67,500	\$	17,602	\$	49,898
		,		.,	-	- ,



REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



Edward B. Hatchett, Jr. Auditor of Public Accounts

Honorable William P. O'Banion, Owen County Judge/Executive Members of the Owen County Fiscal Court

> Report On Compliance And On Internal Control Over Financial Reporting Based On An Audit Of Financial Statements Performed In Accordance With Government Auditing Standards

We have audited the financial statements of Owen County, Kentucky, as of and for the year ended June 30, 2000, and have issued our report thereon dated November 1, 2000. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in <u>Government Auditing Standards</u> issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Owen County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under <u>Government Auditing Standards</u>.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Owen County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Owen County's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. One reportable condition is described in the accompanying comment and recommendation section.

• Receipt Forms Should Be Issued For All County Receipts

Honorable William P. O'Banion, Owen County Judge/Executive Members of the Owen County Fiscal Court Report On Compliance And On Internal Control Over Financial Reporting Based On An Audit Of Financial Statements Performed In Accordance With Government Auditing Standards (Continued)

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, the reportable condition described above, we consider a material weakness.

This report is intended solely for the information and use of management and is not intended to be, and should not be, used by anyone other than the specified party. However, this report, upon release by the Auditor of Public Accounts, is a matter of public record and its distribution is not limited.

Respectfully submitted,

Edward B. Hatchett, Jr. Auditor of Public Accounts

Audit fieldwork completed -November 1, 2000



OWEN COUNTY COMMENT AND RECOMMENDATION

Fiscal Year Ended June 30, 2000

REPORTABLE CONDITION

INTERNAL CONTROL

Receipt Forms Should Be Issued For All County Receipts

During revenue testing, the auditor attempted to confirm waste management receipts. The source for this revenue is the County Transfer Station. It was discovered that the transfer station records amounts received on a yellow pad and brings the money to the Treasurer with no supporting documentation. KRS 64.840 requires receipts be issued for all fees received by county officials. According to the minimum requirements established under the authority of KRS 68.210 for all local government officials and employees handling public funds, a pre-numbered three part receipt form should be issued for all receipts. Original receipt is to be given to payor, a copy to be attached in sequential order to daily cash check-out or daily deposit record, and a copy is to remain in the file. Voided receipts should be so marked, copies one and two kept in numerical order with check-out records, and copy three should remain in the file. We recommend that the transfer station start keeping three part receipt forms for all money received.

County Judge's Response:

Three part receipt forms being used Nov. 1, 2000.